

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY DOHA PRIORITY

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FOLLOWING REPEAT STATE 279301 ACTION ALL DIPLOMATIC POSTS
20 DEC 74

QUOTE

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E.O. 11652:N/A

TAGS: EFIN

SUBJECT: U.S. PROPOSAL FOR ESTABLISHMENT OF TRUST FUND

1. THERE FOLLOWS THE TEXT OF A STATEMENT BY THE U.S. EXECUTIVE DIRECTOR IN THE INTERNATIONAL MONETARY FUND, OUTLINING THE U.S. PROPOSAL FOR ESTABLISHMENT OF A TRUST FUND TO ASSIST THE POOREST DEVELOPING COUNTRIES. THIS PROPOSAL WILL BE DISCUSSED BY THE EXECUTIVE BOARD ON FRIDAY, DECEMBER 20, 1974. POSTS ARE REQUESTED TO MAKE TEXT OF U.S. STATEMENT AVAILABLE TO APPROPRIATE HOST GOVERNMENT AND CENTRAL BANK OFFICIALS. (TEXT IS AVAILABLE IN ENGLISH ONLY. IMF MEMBER GOVERNMENTS WILL PRESUMABLY BE GETTING A REPORT ON THE PROPOSALS IN DUE COURSE FROM THEIR EXECUTIVE DIRECTORS.)

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2. BEGIN TEXT.

3. INTRODUCTION. IN MY STATEMENT ON IMF OPERATIONS IN 1975, I OUTLINED THE UNITED STATES PROPOSALS FOR DEALING WITH A NUMBER OF CURRENT INTERNATIONAL MONETARY PROBLEMS, WITH THE IMF AT THE CENTER, AND TWO NEW SUPPLEMENTAL FACILITIES: (A) A SAFETY NET FOR OECD COUNTRIES AS PART OF A COMPREHENSIVE COOPERATIVE ENERGY PROGRAM AMONG PARTICIPANTS, AND (B) A TRUST FUND TO PROVIDE CONCESSIONAL

FINANCING TO MEET THE SPECIAL ADJUSTMENT PROBLEMS OF THE

POOREST DEVELOPING COUNTRIES. THAT PAPER INDICATED THAT A MORE DETAILED EXPLANATION OF THE TRUST FUND PROPOSAL WOULD BE PREPARED. THIS MEMORANDUM, WHICH IS SUBMITTED AS A BASIS FOR FURTHER DISCUSSION, DEVELOPS THE REASONS FOR ESTABLISHMENT OF A TRUST FUND, AND SUGGESTS PROVISIONS FOR ITS ORGANIZATIONAL FRAMEWORK, FINANCING AND METHOD OF OPERATION.

4. NEED FOR A TRUST FUND. ALL IMF MEMBERS RECOGNIZE THAT SOME OF THE POOREST DEVELOPING COUNTRIES HAVE SERIOUS PROBLEMS ADJUSTING TO CURRENT ECONOMIC CONDITIONS. THESE COUNTRIES, WITH VERY LOW PER CAPITA INCOMES, HAVE LIMITED ACCESS TO INTERNATIONAL NAH TUL MARKETS AND, BECAUSE OF THEIR WEAK ECONOMIES, REQUIRE ASSISTANCE ON SUBSTANTIALLY MORE CONCESSIONAL TERMS THAN NORMAL FOR THE IMF. THIS ASSISTANCE, WHICH WILL BE NEEDED FOR A TEMPORARY PERIOD UNTIL NECESSARY ADJUSTMENTS ARE MADE, MUST INVOLVE APPROPRIATE GRACE PERIODS, LONGER MATURITIES AND LOWER INTEREST RATES. THE IMF PROPER CANNOT, IN FULL MEASURE, PROVIDE THIS COMBINATION OF CONCESSIONAL TERMS THAT IS REQUIRED IN THIS SPECIAL SITUATION, IN PART BECAUSE OF THE NEED TO MAINTAIN THE PRINCIPLE OF UNIFORMITY IN THE IMF AS PROVIDED FOR IN ITS ARTICLES.

5. THE FRAMEWORK THAT SEEMS BEST SUITED TO PROVIDE THIS COMBINATION OF CONCESSIONAL TERMS, FOR THE RELATIVELY SHORT PERIOD OF TIME IN WHICH SUCH PROVISIONS ARE LIKELY TO BE NEEDED, IS A TRUST FUND ESTABLISHED BY THE MEMBER GOVERNMENTS OF THE IMF AND WITH STAFF SUPPORT FROM THE IMF. THIS FRAMEWORK IS BETTER TAILORED TO PROVIDE THE LIMITED OFFICIAL USE
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NEEDED FLEXIBILITY OF TERMS THAN AN INTEREST RATE SUBSIDY ALONE, SUCH AS HAS BEEN SUGGESTED AS PART OF THE PROPOSED OIL FACILITY--QUITE APART FROM THE QUESTIONS RAISED ABOUT EXTENDING THE OIL FACILITY IN MY DECEMBER 6 PAPER. MOREOVER, THE TRUST FUND ARRANGEMENT WOULD ALSO SPREAD THE FINANCING BURDEN AND THE RISK AMONG THOSE COUNTRIES BEST ABLE TO BEAR IT. SUCH A FACILITY WOULD AVOID THE UNWISE PROLIFERATION OF SPECIAL FACILITIES WITHIN THE IMF, CREATING ADDITIONAL CLAIMS ON FUND RESOURCES AND UTILIZING SPECIAL INTEREST RATES, GRACE PERIODS, AND MATURITIES FOR DIFFERENT MEMBERS.

6. ESTABLISHMENT AND STAFFING. THE TRUST FUND COULD BE ESTABLISHED BY AGREEMENT AMONG DONOR GOVERNMENTS. THIS AGREEMENT WOULD CONTAIN THE TERMS AND CONDITIONS ON WHICH THE TRUST FUND WOULD OPERATE, AND REQUEST THE IMF TO ALLOW THE IMF STAFF TO SERVE AS THE ADMINISTRATIVE STAFF

OF THE TRUST FUND, WITH THE IMF RECEIVING A FEE TO COVER

THE COST OF STAFF SERVICES.

7. THIS STAFF RESPONSIBILITY IS PROPERLY PLACED IN THE IMF BECAUSE THE TRUST FUND IS NOT AIMED AT PROVIDING, AS WILL BE DESCRIBED IN MORE DETAIL BELOW, RESOURCES FOR DEVELOPMENT PROJECTS OR PROGRAMS. RATHER, IT IS DESIGNED TO PROVIDE TEMPORARY FINANCIAL ASSISTANCE TO HELP THE POOREST DEVELOPING COUNTRIES ADVERSELY AFFECTED BY RECENT PRICE CHANGES TO TAKE THE MEASURES NECESSARY TO ADJUST TO THESE CHANGES. THE IMF STAFF HAS THE PARTICULAR EXPERTISE TO ANALYZE SUCH PROBLEMS AND MAKE RECOMMENDATIONS ON THE PROVISION OF ASSISTANCE TO HELP COPE WITH THEM.

8. ORGANIZATIONAL STRUCTURE. THE AGREEMENT WOULD PROVIDE FOR THE ORGANIZATIONAL STRUCTURE OF THE TRUST FUND. FOR EXAMPLE, THE TRUST FUND COULD HAVE ITS OWN BOARD OF DIRECTORS, PRESUMABLY NOT EXCEEDING 20 IN NUMBER. CONTRIBUTING GOVERNMENTS WOULD HAVE APPROPRIATE REPRESENTATION ON THE BOARD.

9. THE BOARD OF DIRECTORS WOULD HAVE GENERAL POLICY AND MANAGEMENT POWERS, INCLUDING DECISION-MAKING AUTHORITY LIMITED OFFICIAL USE
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ON ALL LOANS. THE IMF STAFF, AS THE ADMINISTRATIVE STAFF OF THE TRUST FUND, WOULD BE RESPONSIBLE FOR RECEIVING AND PROCESSING ALL LOAN APPLICATIONS, MAKING THE NECESSARY ECONOMIC ANALYSES AND RECOMMENDING DECISIONS TO THE BOARD ON LOAN APPLICATIONS, AS WELL AS CARRYING OUT ALL ADMINISTRATIVE FUNCTIONS.

10. VOTING POWER IN THE BOARD OF DIRECTORS WOULD BE PROPORTIONAL TO CONTRIBUTIONS, AND IMPORTANT DECISIONS, INCLUDING DECISIONS ON PROVIDING ASSISTANCE, WOULD REQUIRE A TWO-THIRDS WEIGHTED MAJORITY.

11. FINANCIAL ARRANGEMENTS. TOTAL RESOURCES OF THE TRUST FUND FOR OPERATIONS DURING THE FIRST YEAR MIGHT AMOUNT TO BETWEEN DOLS 1.5 BILLION TO DOLS 2 BILLION, A SUM WHICH APPEARS TO BE SUFFICIENT TO SUPPLEMENT OTHER FORMS OF ASSISTANCE REQUIRED BY THE EXPECTED GROUP OF DEVELOPING COUNTRY RECIPIENTS. WE WOULD ENVISION THAT CONTRIBUTIONS MIGHT BE APPROPRIATELY PROVIDED IN ROUGHLY EQUAL AMOUNTS FROM THE FOLLOWING TWO SOURCES:

--FROM VOLUNTARY CONTRIBUTIONS BY OIL-PRODUCING COUNTRIES AND OTHER IMF MEMBERS OR NON-MEMBERS OF THE IMF IN A POSITION TO MAKE CONCESSIONS

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